



NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

MEDIA ADVISORY
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**STATE TREASURER ANGELIDES WARNS GOP LEGISLATIVE LEADERS THAT
RECENT 'POLITICALLY CHARGED' STATEMENTS AND ACTIONS SEND
'DANGEROUS SIGNAL' TO FINANCIAL COMMUNITY**

State runs risk of budget stalemate, cash flow crisis, and 'crippling' of critical services

SACRAMENTO, CA – State Treasurer Phil Angelides today sent a letter to two top Republican legislative leaders – Senate Minority Leader Jim Brulte and Assembly Budget Committee Vice Chairman John Campbell – saying he was “deeply concerned” by their “recent, politically charged statements and actions” that “send a dangerous signal” to the financial community.

Angelides said he was concerned that “rancor will trump good faith efforts to resolve policy disagreements, triggering a budget stalemate, a cash flow crisis, and the crippling of critical services from education to health care to public safety.”

The Treasurer called on Brulte and Campbell to “immediately issue clear, public statements – conveyed to the financial markets” – indicating their commitment to “making every good faith effort to timely enact a state budget,” and their willingness to modify their positions on the budget, “as you clearly expect the majority to do, to accomplish that objective.”

Please find attached a copy of the letter.



PHILIP ANGELIDES
Treasurer
State of California

June 9, 2003

The Honorable Jim Brulte
Senate Minority Leader

The Honorable John Campbell
Vice Chairman, Assembly Budget Committee

As the State's chief investment officer, I am deeply concerned by your recent, politically charged statements and actions and their negative impact on the State's fiscal condition, the financing of critical services and investments, and California's economy.

I am writing this letter to ask you to repair the damage that our State will suffer in the financial marketplace due to these actions, and to commit yourselves to resolving our budget challenges in a bi-partisan manner.

As you are well aware, this office is in constant contact with the wide range of participants in the financial community, including investment banks, lenders, investors, credit analysts, and credit rating agencies. In the course of our interactions with these participants, they have expressed rapidly escalating concerns about the State's ability to resolve its fiscal challenges in the face of deep policy differences, particularly given the two-thirds vote required for enactment of a budget.

But your actions and comments of recent days have crossed the line. They send a dangerous signal – that rancor will trump good faith efforts to resolve policy disagreements, triggering a budget stalemate, a cash flow crisis, and the crippling of critical services from education to health care to public safety.

Specifically, I am asking that you immediately issue clear, public statements – conveyed to the financial markets – indicating that 1) you are committed to making every good faith effort to timely enact a state budget, and 2) you are willing to consider, in good faith, modifying your positions on that budget, as you clearly expect the majority to do, to accomplish that objective.

The consequences of putting politics above policy at this critical juncture will be dire. First of all, notwithstanding the underlying strength of California's economy, our State's

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credit rating has been downgraded, due in large part to concerns among investors and credit rating agencies that California's budget writing process is ensnarled in a web of political intransigence and structural obstacles. A budget stalemate could well lead to further downgrades, at significant cost to taxpayers. A lowering of our rating from A to A- will result in approximately \$400 million in additional borrowing costs on authorized but unissued bonds. A lowering to BBB+ will cost approximately \$850 million. This erosion of our credit rating would take us down a dangerous path – one that could jeopardize our ability to access the capital markets for cash flow and critical investments.

Secondly, as I indicated in my letter of May 30, 2003, I do not believe that we can place additional general obligation or lease-revenue bond measures before the voters until a balanced budget for fiscal year 2003-04 is in place and there is a viable plan to fix the structural imbalances in the budget. Clearly, we need to put our fiscal house in order so that we can once again move forward on the vital investments in infrastructure – from schools to parks to transit – that are essential to our State's long-term economic progress.

Finally, and perhaps most importantly, a fiscal meltdown will do lasting damage to California's economy and its reputation in the financial markets. A state government in turmoil, schools uncertain of their budgets and resources, critical infrastructure projects on hold – all of these send the wrong message about California to investors and businesses across this nation and the world.

There is no reason for us to reach a point of crisis. California, in many respects, stands today as the richest State in the wealthiest nation on earth. Ours is the fifth largest economy in the world. Our gross state product last year was \$1.4 trillion. We are blessed with intellectual and entrepreneurial talent unmatched on the globe. We face not so much an economic and fiscal crisis, as a political crisis.

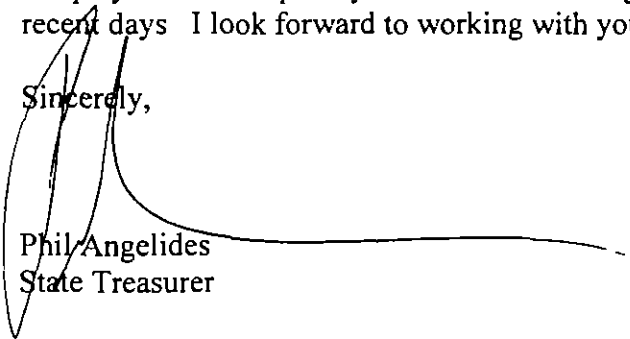
Let me be clear. I recognize that each of us has deeply held beliefs. As you know, I have advocated forcefully for a budget that funds education in a manner that is worthy of our future. I have traveled the State to make the case against deep cuts in education because I believe that we must make the investment necessary to train the best workforce in the world to remain competitive in the global economy. I oppose your budget proposals because I do not believe that the deficit financing that you have outlined is feasible or prudent and because the billions of dollars in proposed education cuts over the coming years are unwise, given the economic and social challenges we face in the years and decades ahead.

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But none of us can afford to bring the State to its knees. To avoid hurting the State we all love, we must now move to suture up our fiscal wounds so that we can face the truly important work ahead of building sustained strength for our economy and society.

I hope you will act quickly to reverse the damaging course upon which you embarked in recent days. I look forward to working with you.

Sincerely,



Phil Angelides
State Treasurer